

Message Text

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SUBJECT: PRELIMINARY FINANCIAL INDICATORS FOR 1977

1. SUMMARY-PRELIMINARY DATA INDICATE THAT THE
GOB MADE SIGNIFICANT PROGRESS IN 1977 TOWARDS ACHIEVING
THE TWO TOP PRIORITY GOALS: REDUCTION OF INFLATION AND
BALANCING THE INTERNATIONAL TRADE ACCOUNT. INFLATION WAS
REDUCED FROM 46 PERCENT IN 1976 TO LESS THAN 39 PERCENT
IN 1977. BRAZIL RECORDED A TRADE SURPLUS OF ABOUT \$140
MILLION IN 1977 COMPARED TO A DEFICIT OF \$2.1 BILLION IN
1976. REAL GNP GROWTH IN 1977 IS CURRENTLY ESTIMATED AT
5 PERCENT, REFLECTING THE GOB'S CONSCIOUS EFFORTS TO
DECELERATE ECONOMIC ACTIVITY FROM THE 9.2 PERCENT GROWTH
IN 1976. GROSS FOREIGN EXCHANGE RESERVES WERE
ESTIMATED \$7.2 BILLION AT THE END OF 1977 AND GROSS
FOREIGN DEBT HAD ABOUT \$31 BILLION. END SUMMARY.

2. INFLATION-ACCORDING TO GETULIO VARGAS
FOUNDATION DATA, THE GENERAL PRICE INDEX (INTERNAL
SUPPLY) ROSE 38.8 PERCENT IN 1977, COMPARED TO
46.3 PERCENT IN 1976. THE RATE OF INCREASE IN
WHOLESALE PRICES EXPERIENCED SHARP IMPROVEMENT FROM
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44.9 PERCENT IN 1976 TO 35.5 PERCENT IN 1977. RIO
COST-OF-LIVING IMPROVED FROM 44.8 PERCENT IN 1976
TO 43.1 PERCENT IN 1977. INFLATION IN DECEMBER 1977
WAS 2.1 PERCENT COMPARED TO 2.6 PERCENT IN NOVEMBER
AND THE OVERALL RATE IN THE SECOND HALF OF 1977
WAS ABOUT 25 PERCENT.

3. EXCHANGE RATE-THE CRUZEIRO DEPRECIATED BY 30 PERCENT IN RELATION TO THE DOLLAR IN 1977. CUMULATIVE DEPRECIATION IN 1976 WAS 35.2 PERCENT. THE EXCHANGE RATE CHANGED FOURTEEN TIMES IN 1977 AND THE AVERAGE INTERVAL BETWEEN MINI-DEVALUATIONS WAS 26 DAYS. THE OFFICIAL RATE AT THE END OF 1977 AT CR15.95 BUYING AND CR16.05 SELING.

4. EXTERNAL ACCOUNTS-PRELIMINARY TRADE DATA SHOW EXPORT EARNINGS OF \$12,138 MILLION AND IMPORT PAYMENTS OF \$11,999 MILLION IN 1977. EXPORTS GREW BY ABOUT 20 PERCENT AND IMPORTS DECLINED SLIGHTLY IN COMPARISON WITH 1976. THE RESULTING TRADE SURPLUS WAS \$139 MILLION, IN CONTRAST TO A DEFICIT OF \$2,147 MILLION IN 1976. THE NEARLY \$2.3 BILLION IMPROVEMENT IN THE TRADE ACCOUNT RESULTED FROM HOLDING IMPORTS FLAT IN NOMINAL TERMS WHILE INCREASING RECEIPTS FROM COFFEE, SOYBEANS, AND MANUFACTURED EXPORTS. MINISTER OF FINANCE SIMONSEN HAS ESTIMATED THAT OWING TO THE IMPROVED TRADE BALANCE, THE CURRENT ACCOUNT DEFICIT WAS REDUCED FROM \$6.1 BILLION IN 1976 TO \$3.8 BILLION IN 1977. SIMONSEN ALSO HAS STATED THAT THE GROSS FOREIGN DEBT WAS ABOUT \$31 BILLION AND GROSS FOREIGN EXCHANGE RESERVES WERE ESTIMATED \$7.2 BILLION AS OF THE END OF 1977. THESE DATA SUGGEST REALIZATION OF THE EXPECTED SUBSTANTIAL INFLOW OF LOAN CAPITAL IN UNCLASSIFIED

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THE LAST QUARTER OF THE YEAR.

5. MONETARY-MONETARY EXPANSION IN 1977 WAS ABOUT 32 PERCENT. THIS WAS EQUAL TO THE INCREASE IN THE MONEY SUPPLY IN 1976 AND SLIGHTLY IN EXCESS OF THE INFORMAL REVISED GOB TARGET OF 35 PERCENT FOR 1977. AGRICULTURAL CREDIT AND NET FOREIGN EXCHANGE INFLOW WERE BOTH GREATER THAN ANTICIPATED AND EFFECTIVELY PRECLUDED THE POSSIBILITY OF MEETING THE ORIGINAL MONETARY BUDGET TARGED OF 25 PERCENT.

6 ECONOMIC GROWTH-THE GOB'S SUCCESSFULL EFFORT TO GRADUALLY REDUCE INFLATION IN 1977 ENTAILED A MARKED SLOWDOWN IN ECONOMIC ACTIVITY. ACCORDING TO PRELIMINARY ESTIMATES BASED ON END OF NOVEMBER DATA AND RELEASED BY THE MINISTER OF PLANNING, THE OVERALL REAL INCREASE IN GNP WAS 5 PERCENT. AGRICULTURAL PRODUCTION INCREASED AN ESTIMATED 10 PERCENT WHIILE INDUSTRIAL OUTPUT ROSE BY ABOUT 4 PERCENT. SPECIFIC INDUSTRIAL SECTOR PERFORMANCES INCLUDED AN ESTIMATED 4 PERCENT DECLINE IN THE OUTPUT OF EXTRACTIVE MINERALS AND EXPANSION OF 3 PERCENT IN HEAVY INDUSTRY, NEARLY

8 PERCENT IN CONSTRUCTION, AND 13 PERCENT IN SERVICES.
AUTOMOBILE PRODUCTION PICKED UP IN NO-DEC BUT WAS
7.2 PERCENT LOWER IN 1977 THAN IN 1976. GNP IN 1977
WAS ABOUT \$168 BILLION, SUGGESTING PER CAPITA OUTPUT
OF \$1400-1500.

7. CONFIRMATION OF DATA AND EMBASSY ANALYSIS AND COMMENT ON THE 1977 PERFORMANCE AND PROSPECTS FOR 1978
WILL FOLLOW ASAP.
JOHNSON

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